

VZCZCXRO2532
RR RUEHAG RUEHDBU
DE RUEHKB #1211/01 2290405
ZNY CCCCC ZZH
R 170405Z AUG 06
FM AMEMBASSY BAKU
TO RUEHC/SECSTATE WASHDC 1047
INFO RUCNCIS/CIS COLLECTIVE
RUCNMEM/EU MEMBER STATES
RUEHAK/AMEMBASSY ANKARA 1687
RUEHIT/AMCONSUL ISTANBUL 0452
RHMFISS/CDR USEUCOM VAHINGEN GE
RUCPDOG/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEAIIA/CIA WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 02 BAKU 001211

SIPDIS

SIPDIS

DEPT FOR EUR DAS MATTHEW BRYZA
USDOE FOR FE - SWIFT AND OS - WILLIAMSON

E.O. 12958: DECL: 08/17/2016
TAGS: [ECON](#) [ENRG](#) [EPET](#) [PREL](#) [IR](#) [AJ](#) [KZ](#) [RU](#)
SUBJECT: AIOC PRESIDENT BRIEFS ON SHAH DENIZ AND BTC
OPERATIONS

Classified By: Acting DCM Polaschik per reasons 1.4 (B,D).

¶1. (C) SUMMARY: AIOC President Woodward briefed U.S. and UK emboffs August 15 on Shah Deniz and BTC operations. Woodward noted that Shah Deniz first gas could be delayed until October, with a official celebrations possible November 9-10 in Baku. The GOAJ, according to Woodward, is still interested in keeping some of the gas volumes for domestic use or export to Georgia. He said that the BTC pipeline was operating smoothly despite some minor difficulties with Turkish pipeline operator BOTAS. BP plans to organize a high-level revenue management conference in early 2007 with the State Oil Fund. Regarding Iran and the disputed Alov field operations, Woodward stated that the Iranian platform likely would not ship and be installed until 2007, but noted that BP plans to begin exploratory drilling at the partially disputed Inam field in 2007. END SUMMARY.

¶2. (SBU) On August 15 AIOC President David Woodward briefed U.S. and UK emboffs on BTC and Shah Deniz operations. Woodward said that the East Azeri platform at the ACG field would begin production by November, despite minor operational delays due to weather, noting that the project was still ahead of schedule.

SHAH DENIZ PHASE I GAS ON TRACK

¶3. (SBU) On Shah Deniz phase I, Woodward said that "first gas," scheduled for the end of September, likely would slip to October due to some technical production issues regarding the wells that still needed to be resolved. BP has proposed that official First Gas celebrations be held in Baku November 9-10, although Woodward noted that President Aliyev has not yet approved the date.

¶4. (SBU) Woodward explained that the Government of Azerbaijan (GOAJ) was still interested in taking any gas that Turkey refused due to the slow construction of the gas pipeline by pipeline operator BOTAS. These volumes could then be used for Azerbaijan's domestic gas needs or for resale to Georgia. He added that it was still unclear whether Azerbaijan and Georgia had completed discussions on how to divvy up the initial Shah Deniz gas volumes that could not be transferred to Turkey until the Turkish SCP link was complete. In addition, it was unclear whether Azerbaijan and Georgia had begun discussions on gas volumes and prices for the 2006/2007

winter.

15. (SBU) Woodward noted that AIOC/BP had informed SOCAR and the GOAJ that Sangachal and the AIOC pipelines could handle additional gas volumes if Turkey refused some volumes. AIOC did not, however, study Azerbaijan's domestic gas pipeline structure to determine if it could handle further downstream an increase in gas volumes. Regarding the current Shah Deniz Phase II well explorations, Woodward noted that there had been some minor problems as the drilling reached "deeper horizons;" however, BP expected to resolve them soon.

BTC RUNNING SMOOTHLY

16. (SBU) Woodward said that despite some minor "teething" problems, BTC was operating smoothly. The majority of the problems, he explained, had been occurring in Turkey, and AIOC has been pushing BOTAS to resolve them. Woodward also said that he and new BTC Chief Rashid Javanshir would travel to Turkey this week in order to complete the negotiations regarding the USD 333 million payment that BP had agreed to pay to resolve previous construction issues. In addition, BP plans to second some executives to the BTC operations in order to facilitate pipeline function and improve overall performance.

SOCAR AND NORTHERN EXPORT ROUTE

17. (SBU) Woodward noted that SOCAR and AIOC had been discussing future plans for the northern export route for crude oil. AIOC had been actively using this route to export

BAKU 00001211 002 OF 002

ACG crude prior to BTC completion. The Azerbaijan-Russia inter-governmental agreement governing the northern route's usage is renewed automatically every year. Woodward thought that, with the completion of the BTC pipeline, the northern route will not be as useful and its usage can transfer directly back to SOCAR by the beginning of 2007.

18. (SBU) As in previous meetings, Woodward said that AIOC and BP are continuing to have problems with SOCAR and its management team. In particular, Woodward noted that the ACG steering committee is always being canceled by SOCAR for undisclosed reasons. Woodward did not think SOCAR was doing this on purpose, but rather SOCAR's general disorganization and lack of management capacity led to meeting cancellations.

BP STUDY OF GOAJ MINISTERS ENERGY VIEWS

19. (SBU) Woodward said that BP had commissioned a study of GOAJ ministers' perception of BP, Azerbaijan's strategic global energy role, and the role of international energy companies in Azerbaijan's energy future. While the report was not completely finished, Woodward noted that most of the views provided by GOAJ ministers reflected personal views and opinions. He added that there did not appear to be an "official view" of BP or Azerbaijan's energy strategy provided by the ministers.

HIGH-LEVEL OIL REVENUE MANAGEMENT CONFERENCE

110. (SBU) BP Public Relations Director briefed on discussions with the State Oil Fund to organize a high-level conference on oil/gas revenue management, focused on raising public awareness of the issue. The Oil Fund agreed to the conference and wanted a well-known economic speaker, such as Jeffrey Sachs. BP proposed the conference occur in the first quarter of 2007, possibly February or March. The PR director also noted that the Oil Fund and BP had signed a memorandum of understanding involving the BP-financed macroeconomic quantitative unit at the Oil Fund.

IRAN'S ALOV FIELD

¶11. (C) Woodward noted that, according to press sources, while the Iranian "Alborz" oil platform was ready to ship and be installed, it appeared that Iran would delay sailing the rig to the disputed Alov field until early 2007. Woodward did not know the reason for the delay. Woodward noted that BP planned to begin exploratory drilling at the Inam field (partially disputed by Iran and close to the Alov field) in ¶2007.

HYLAND